
CHAPTER I. INTRODUCTION

The federal-state Unemployment Insurance (UI) system, which provides income support to persons who have lost their jobs, is designed to have cyclical swings in outlays and revenues. In recent years, however, it has been unable to recoup financial losses suffered during periods of high joblessness, because the periods of economic downturn have been relatively more frequent--limiting the time the system has to recover from financial drains--and because the unemployment rate has trended upward considerably over the last decade. In addition, numerous program changes in past years have both helped and hindered the status of the UI fund. These difficulties have prompted concern in the Congress and elsewhere about the ability of the system to provide adequate aid to jobless Americans.

THE ROLE OF UNEMPLOYMENT INSURANCE

Unemployment Insurance provides weekly cash benefits to workers who are involuntarily unemployed and who have had at least a moderate amount of work experience during a one-year period prior to losing their jobs. Of the four types of jobless workers identified in labor-market surveys--persons who lost their jobs, those who voluntarily left their jobs, and new entrants and reentrants to the labor market--only job losers usually qualify for UI. Consequently, only about 40 to 50 percent of jobless persons usually receive UI benefits, although this fraction fluctuates with cyclical changes in the composition of the unemployed population and temporary benefit extensions. UI is usually available for up to 26 weeks; however, recent high rates of unemployment have prompted increases in the duration of this aid--up to 65 weeks in some states.

Unemployment Insurance has several functions. ¹/ First, the availability of UI benefits provides jobless workers the financial resources to search for new jobs. This can lead to increased job stability because of better matches between jobs and workers, and also can lead to higher worker

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1. See, for example, Martin N. Baily, "Unemployment Insurance as Insurance for Workers," Industrial and Labor Relations Review (30:4, July 1977), pp. 495-504; and Raymond Muntz and Irwin Garfinkel, The Work Disincentive Effects of Unemployment Insurance (Kalamazoo, Michigan: Upjohn Institute for Employment Research, 1974).

productivity. In the longer run, these factors can, in turn, reduce the rate of unemployment somewhat.

Second, by providing cash to jobless workers, UI helps to stabilize the overall level of economic activity. Program outlays increase with increases in unemployment, thereby potentially offsetting reductions in consumer spending that otherwise would occur. Outlays decrease as the economy recovers and unemployment falls, thereby reducing the inflation risk associated with renewed economic activity.

Finally, the payroll tax which finances most UI benefits serves as a type of premium for benefits. Workers pay part of the tax by taking somewhat reduced wages in exchange for insuring part of their income if they lose their jobs. Employers pay somewhat higher labor costs for the option of laying off workers when demand is slack and being able to reemploy those same workers when conditions improve--thereby reducing their costs for recruiting, rehiring, and retraining new employees.

Although in these respects the UI program can work to reduce joblessness, other features of UI add to the frequency and duration of unemployment. By reducing the cost of being unemployed, UI can make workers less concerned about losing their jobs and can reduce their incentive to find work once they are unemployed. Overall, the availability of UI benefits has been estimated to increase the rate of joblessness in the economy by between one-half and one percentage point. ^{2/}

PLAN OF THE PAPER

This report analyzes the financial condition of the UI system and considers options for helping its financial situation and for using the system to promote employment of jobless workers. ^{3/} Chapter II describes the operation of the present UI system. Chapter III details its financial difficulties since 1970, and presents outlay and revenue projections to 1988. Chapter IV considers several options to increase revenues and reduce program outlays, and also discusses ways in which UI might better meet the needs of jobless workers.

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2. See, for example, Kim B. Clark and Lawrence H. Summers, "Unemployment Insurance and Labor Market Transitions," in Martin N. Baily, ed., Workers, Jobs, and Inflation (The Brookings Institution, 1982), pp. 279-323.
 3. This study does not, in general, consider issues concerning the adequacy of current UI benefits.

CHAPTER II. THE CURRENT PROGRAM

The Unemployment Insurance system provides temporary and partial wage replacement to involuntarily unemployed persons. 1/ Compensation is currently available under three programs, including two permanent programs for regular and extended benefits and temporary Federal Supplemental Compensation. Benefits from the permanent programs are financed by payroll taxes on employers, while the federal supplemental program is funded by federal general revenues.

The provision of Unemployment Insurance is shared between the federal and state levels of government. Federal law determines the overall structure of the UI system, while state laws primarily establish eligibility requirements and the duration and amount of weekly unemployment compensation. 2/ All 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands operate unemployment insurance programs under federal guidelines. 3/

Unemployment compensation is financed by both federal and state payroll taxes on employers. 4/ Since the tax base per worker is generally quite small, a main determinant of revenue is the number of workers on an employer's payroll. State tax rates also generally vary according to the use of UI benefits made by an employer's former workers. The federal government ensures compliance of state programs with federal UI rules by

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1. The Unemployment Insurance system was created by the Social Security Act of 1935 (P.L. 74-271). Title III of the act directs administration of UI; Title IX deals with taxation, coverage, and other provisions; and Title XII provides for temporary loans to states to pay benefits. The Federal Unemployment Tax Act of 1939 (P.L. 76-379) details the federal payroll tax.
 2. The federal government also operates special national programs for former military, federal civilian, and railroad workers. These programs are organized differently from the main UI programs, however, and are not included in this report.
 3. In this study, the term "state" refers to any of these 53 jurisdictions.
 4. Three states--Alabama, Alaska, and New Jersey--sometimes require employee contributions to their state UI programs.

granting reductions in the federal tax to employers in states with approved UI programs. ^{5/} In 1982, state tax receipts totaled \$12.8 billion and federal tax receipts totaled \$3.2 billion, as compared to state and federal outlays of \$23.3 billion.

The operation of state UI programs affects the federal budget for two reasons. First, both state and federal tax receipts are deposited in the federal Unemployment Trust Fund in the U.S. Treasury, and benefits are paid from this fund. These taxes and benefits are included in federal receipts and outlays in the unified federal budget. Second, state laws affect the costs of federal benefits because of linkages between state and federal UI programs.

This chapter analyzes the benefit and financing provisions of the UI system. The first section examines eligibility conditions and benefit levels under the three tiers of Unemployment Insurance. The second section analyzes state and federal tax provisions and discusses the organization of the Unemployment Trust Fund.

COVERAGE, ELIGIBILITY, AND BENEFITS

Jobless workers may be eligible for unemployment compensation if their former employers were covered under state UI laws and if they search for, and are available for, work once they become unemployed. For those who are eligible, benefits are available under three UI programs, which provide compensation for successively later periods of joblessness.

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5. All states comply with the federal requirements. Major rules are that: all state payroll tax revenues must be deposited in the Unemployment Trust Fund; all money withdrawn from these Trust Fund accounts must be used to pay benefits, except under certain limited conditions; compensation must not be denied to persons who refuse to accept work if the job is vacant due to a labor dispute, or if, as a condition of being employed, the individual would be required to join--or not to join--a union, or if the conditions of work are substantially less favorable than those in similar work in the locality; reduced state UI tax rates on employers must be permitted only on the basis of the employers' past experience with UI benefits; and nonprofit organizations and governmental entities must be permitted to finance benefit costs by reimbursing the Trust Fund, instead of paying taxes.

In addition, to ensure that employers receive the maximum federal tax credit, state UI programs must have tax bases at least as large as the federal one.

Coverage

Nearly 97 percent of wage and salary workers, and about 88 percent of all employed persons, currently work in jobs covered under state UI laws. Employers generally are covered under UI laws if they are required to pay UI payroll taxes. Coverage under state programs is at least as broad as under the federal system, because workers whose employers are not covered under state laws are not eligible for state or federal benefits. Also, the federal government effectively requires states to cover certain nonprofit employment and state and local government workers. Work not covered by the UI system includes self employment, certain agricultural labor and domestic service, and service for relatives.

Eligibility Conditions

Although the Unemployment Insurance system covers the vast majority of workers, usually less than half of the persons unemployed at any time receive UI benefits because of restrictions on eligibility. To be eligible for unemployment benefits, jobless workers must have formerly worked for covered employers, be able to work, be seeking work, and be free from disqualification for such acts as quitting without good cause or discharge for misconduct. Recipients also must not refuse an offer of "suitable work," with the definition of that work differing considerably among states.

Under all state UI laws, workers' eligibility for benefits depends on their experience in covered employment in a past one-year period, called a base period. To qualify for benefits, a claimant must have earned a specified amount of wages, have worked a certain number of weeks in covered employment within the base period, or meet some combination of wage and employment requirements. These qualifying provisions are intended to measure the worker's prior attachment to the work force.

In terms of the base year's earnings alone, the amount required to obtain the minimum benefit ranges among states from \$150 in Hawaii to \$2,200 in Virginia (see Table 1); the amount required to obtain the largest benefit ranges from \$3,360 in Puerto Rico to \$20,750 in West Virginia. The amount of work required for the minimum UI benefit ranges from 14 weeks in Hawaii to 20 weeks in several states; in addition, most states require that employment be spread over at least two quarters of the base period. Most states require that a claimant serve a one-week waiting period before compensation is available.

State laws must conform to certain federal restrictions regarding the availability of benefits. Benefits cannot be denied to persons because they do not accept work if the job offered is vacant due to a strike or other labor

TABLE 1. SELECTED BENEFIT AND ELIGIBILITY INFORMATION FOR REGULAR STATE UNEMPLOYMENT INSURANCE PROGRAMS, BY STATE, JANUARY 1983 (In dollars and weeks of benefits)

State	Weekly Benefit Amount a/			Potential Duration of Benefits		Earnings Required for Min/Max Benefit c/	
	Min.	Max.	Avg. b/	Min.	Max.	Min.	Max.
Alabama	15	90	81	11	26	522	7,020
Alaska	34	228	132	16	26	1,000	16,000
Arizona	40	115	105	12	26	1,500	8,969
Arkansas	31	136	97	10	26	930	10,605
California	30	166	101	12	26	1,200	8,630
Colorado	25	190	148	7	26	1,000	19,656
Connecticut	15	206	119	26	26	600	6,240
Delaware	20	150	98	18	26	720	15,496
District of Columbia	13	206	145	17	34	450	14,006
Florida	10	125	97	10	26	400	12,897
Georgia	27	115	98	4	26	413	11,956
Hawaii	5	178	129	26	26	150	5,340
Idaho	36	159	118	10	26	1,138	13,351
Illinois	51	224	151	26	26	1,600	4,789
Indiana	40	141	96	9	26	1,500	8,736
Iowa	17	190	141	15	26	600	12,324
Kansas	40	163	133	10	26	1,200	12,711
Kentucky	22	140	116	15	26	1,500	11,772
Louisiana	10	205	153	12	28	300	14,348
Maine	22	186	105	7	26	1,427	9,671
Maryland	25	153	120	26	26	900	5,508
Massachusetts	14	258	121	9	30	1,200	14,331
Michigan	41	197	158	13	26	2,010	15,085
Minnesota	30	191	141	11	26	1,724	14,171

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Mississippi	30	105	86	13	26	1,200	8,187
Missouri	14	105	94	10	26	450	8,190
Montana	39	158	133	8	26	1,000	13,309
Nebraska	12	106	97	17	26	600	8,189
Nevada	16	149	119	11	26	563	11,619
New Hampshire	26	132	99	26	26	1,700	16,500
New Jersey	20	158	121	15	26	600	8,243
New Mexico	29	142	109	19	26	921	6,153
New York	25	125	100	26	26	800	4,980
North Carolina	15	166	108	13	26	1,368	12,948
North Dakota	47	175	134	12	26	1,880	13,391
Ohio	10	250	148	20	26	400	8,164
Oklahoma	16	197	145	20	26	1,000	15,363
Oregon	44	175	121	8	26	1,000	13,960
Pennsylvania	35	213	153	26	30	1,320	8,120
Puerto Rico	7	84	63	20	20	280	3,360
Rhode Island	37	174	112	12	26	1,340	11,684
South Carolina	21	118	95	14	26	900	9,201
South Dakota	28	129	108	18	26	1,568	10,059
Tennessee	20	110	90	13	26	800	8,577
Texas	27	168	132	14	26	1,013	16,174
Utah	10	166	133	10	26	1,200	12,012
Vermont	18	146	111	26	26	700	5,820
Virginia	44	138	113	12	26	2,200	13,800
Virgin Islands	15	124	94	26	26	396	3,720
Washington	49	178	136	16	30	1,237	16,019
West Virginia	18	211	142	28	28	1,150	20,750
Wisconsin	37	196	140	1	34	1,080	16,770
Wyoming	24	180	142	12	26	960	15,000

SOURCE: U.S. Department of Labor, Unemployment Insurance Service, Comparison of State Unemployment Insurance Laws (January 1983) and unpublished data.

- a. For total unemployment; includes dependents' allowances.
- b. October 1982 through December 1982.
- c. Base-period earnings required.

dispute; benefits also cannot be denied if, as a condition of being employed, the individual would have been required to join--or not to join--a union. In addition, workers are not required to accept jobs if the wages or conditions of the work are substantially less favorable than those prevailing for similar work in the same locality. Finally, benefits cannot be denied because a worker is in an approved training program.

On the other hand, federal rules prohibit the payment of benefits in certain circumstances. For example, benefits must be denied to teachers during the summer so long as they have reasonable assurance of reemployment, and to aliens not legally admitted to work in the United States.

Benefits

UI benefits are limited primarily to providing cash assistance. Although UI recipients also may use the information and placement-assistance services of the Employment Service, this aid is available to other jobless persons as well. ^{6/}

States have primary control over benefits in both state and federal UI programs because the same weekly benefit provided under regular state UI is also provided for Extended Benefits (EB) and Federal Supplemental Compensation (FSC). The potential duration of EB also is based on regular UI eligibility, while the potential duration of FSC depends on both state and federal law.

Regular State Benefits. The weekly benefit paid to eligible persons varies widely both within states and among them, depending on prior employment and wages, and on state laws. The smallest minimum benefit available to an eligible person is \$5 per week in Hawaii, and the largest maximum benefit is \$258 per week in Massachusetts. Average weekly benefits range from a low of \$63 in Puerto Rico to a high of \$158 in Michigan.

The number of weeks benefits are available under the regular UI program also depends on the beneficiary's prior work experience and on

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6. The Employment Service is primarily a labor exchange, attempting to match the skills and interests of job applicants with the openings listed with the Service by employers. Assistance to employers includes job analysis, studies of turnover and absenteeism, and assistance in job restructuring, along with help in filling their job openings. The primary service provided to jobseekers is referral to listed job openings. Employment Service agencies must serve, without charge, all job applicants regardless of skill or aptitude.

state laws. The shortest minimum benefit period is 1 week in Wisconsin and the longest maximum is 34 weeks in the District of Columbia and Wisconsin, although most states have a maximum of 26 weeks of benefits. Ten states provide the same duration of benefits to all qualified workers. The maximum regular benefit (maximum weekly amount for the maximum duration) ranges from a low of \$1,680 in Puerto Rico to a high of \$7,740 in Massachusetts.

In fiscal year 1984, an estimated 10.9 million persons will receive regular UI benefits for an average of 16 weeks. The average weekly benefit in that year will be about \$125. Compared to jobless persons who do not receive benefits, UI recipients on average tend to be older (36 years of age compared to 30), tend to work more of the year of their unemployment (35 weeks compared to 24 weeks), and are more likely to be men (62 percent compared to 52 percent). In addition, relatively more UI recipients formerly worked in manufacturing and construction industries than jobless workers who do not receive UI, and relatively fewer worked in retail trade and service industries. 7/

Federal-State Extended Benefits. The maximum potential duration of benefits within a state is extended by the Federal-State Extended Unemployment Compensation Act of 1970 (P.L. 91-373) whenever the state's unemployment rate exceeds certain thresholds. This Extended Benefit program continues UI payments for up to 50 percent of a worker's regular benefit duration, for a combined maximum duration of 39 weeks in most states. To qualify for extended benefits, jobless persons must have exhausted their regular benefits and, in addition, must have worked the equivalent of 20 or more weeks in the base period that determines eligibility for regular UI. The federal and state governments each pay for half of these added benefits.

Extended benefits are available, or "trigger on," in a state when the insured unemployment rate (IUR)--the percent of workers covered by the state UI program that receive regular unemployment benefits--exceeds certain levels. In particular, they are payable when the state IUR is at least 5 percent and, in addition, is 20 percent higher than during the same period in the prior two years. At state option, extended benefits are also available in a state when the IUR is at least 6 percent, without the 20 percent factor. 8/

7. CBO tabulations based on the March 1982 Current Population Survey.

8. See Appendix A for a description of recent legislative changes in UI, including those in the EB program.

During fiscal year 1984, an estimated 1.3 million long-term jobless persons in 30 states will receive EB. Weekly extended benefits will be about \$123 and will last for an average of 11 weeks.

Federal Supplemental Compensation. The federal government is the sole provider of a temporary third level of unemployment benefits, called Federal Supplemental Compensation. Unlike regular and extended benefits that are permanently authorized by federal law, various supplemental programs of this type have been enacted for limited periods by special legislation, generally during periods of exceptionally high unemployment. ^{9/}

The current federal supplemental program authorizes benefits during the period September 12, 1982, through September 30, 1983. These benefits are financed from the federal general fund, and are available for a maximum of between 8 and 14 weeks, depending on the insured unemployment rate in the state; persons exhausting their supplemental benefits on or before April 1, 1983, were also eligible for up to 10 additional weeks beyond the 8-16 weeks that were then available. ^{10/} FSC benefits are payable after a jobless worker has exhausted regular--and, if available, extended--UI benefits, with the potential maximum duration of benefits under all three programs being 65 weeks.

In fiscal year 1983, an estimated 4 million persons will receive FSC benefits averaging about \$120 per week. The average length of time the benefits are received will vary considerably among the states because of federal rules linking maximum benefits to state jobless rates.

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9. Prior federal supplemental programs--sometimes called emergency unemployment compensation--were in effect in 1972-1973 and 1975-1978. Supplemental benefits paid before 1977 were financed out of federal Trust Fund balances; the Emergency Unemployment Compensation Extension Act of 1977 (P.L. 95-19), however, provided for general-revenue financing of those benefits for the period April 1977 through January 1978. One additional federal program, Special Unemployment Assistance, temporarily provided benefits to certain workers not covered by UI in 1975-1978.
 10. The FSC program currently provides the following maximum weeks of benefits: 14 weeks in states with IURs of 6 percent and above; 12 weeks in states with IURs between 5 and 6 percent; 10 weeks in states with IURs between 4 and 5 percent; and 8 weeks in all other states. See Appendix A for a description of the recent history of FSC.

FINANCING

Unemployment Insurance benefits and administrative costs are funded primarily by state and federal payroll taxes on employers. The federal tax is reduced in all states because they have federally approved UI programs, with the result that state tax revenues significantly exceed federal revenues. In 1983, for example, state tax payments will be about \$15 billion, compared to an estimated \$4.5 billion for the federal tax.

This section first examines the state and federal UI tax systems and then describes the structure of the Unemployment Trust Fund in the U.S. Treasury.

State and Federal UI Taxes

State and federal UI taxes are used for different purposes. State tax revenues are used for compensation paid under the regular UI program and for the state share of EB costs. Federal tax revenues pay for the other half of EB costs, the administration of both federal and state UI programs, and temporary loans to states to cover their benefit costs.

The major difference between the state and federal UI tax structures is their dissimilar treatment of employers whose former workers received UI benefits. All states except Puerto Rico and the Virgin Islands use "experience rated" tax assessments to determine employer liabilities. Under these systems, employers whose employees have made greater use of UI benefits in the past pay higher payroll tax rates. The federal tax on employers, on the other hand, does not depend on the amount of unemployment compensation received by an employer's former workers.

State UI Taxes. The methods and levels of taxation vary considerably among the states. Most states have more than one tax rate schedule, depending on the solvency of the state's UI program, and federal law requires that state tax rates cannot be reduced below a certain level--usually 2.7 percent--except on the basis of the employer's experience rating.

Each state uses a different experience-rating technique to determine employer tax rates. The most popular type is the "reserve ratio" method. According to this procedure, an employer's tax rate is determined by the ratio of UI taxes paid in the past, less UI benefits paid to former workers, to the employer's average annual taxable payroll during a recent period. The higher this ratio, the lower, in general, is the employer's state UI tax rate. For example, the employer's tax rate is generally lower the more it has paid

in taxes and the less the benefits that have been paid to former workers. With many variations, this system is currently used in 32 states. Various other techniques are used to determine an employer's tax liability in the remaining states that use experience-rating systems, but they too generally incorporate some combination of the employer's past tax payments, benefits used, and the size of the payroll.

State tax bases and rates also vary considerably (see Table 2). State tax bases per worker are at least as large as the federal tax base--\$7,000 in 1983--and are often larger, ranging up to \$20,200 in Alaska, and covering all wages in Puerto Rico. Tax rates vary both because of experience rating and because different tax-rate schedules are used. The average tax rates actually paid in 1982 ranged from 0.6 percent of taxable payroll in Texas to 4.8 percent in West Virginia; as a fraction of total earnings, the average tax rates ranged from 0.3 percent in Texas to 3.0 percent in Puerto Rico.

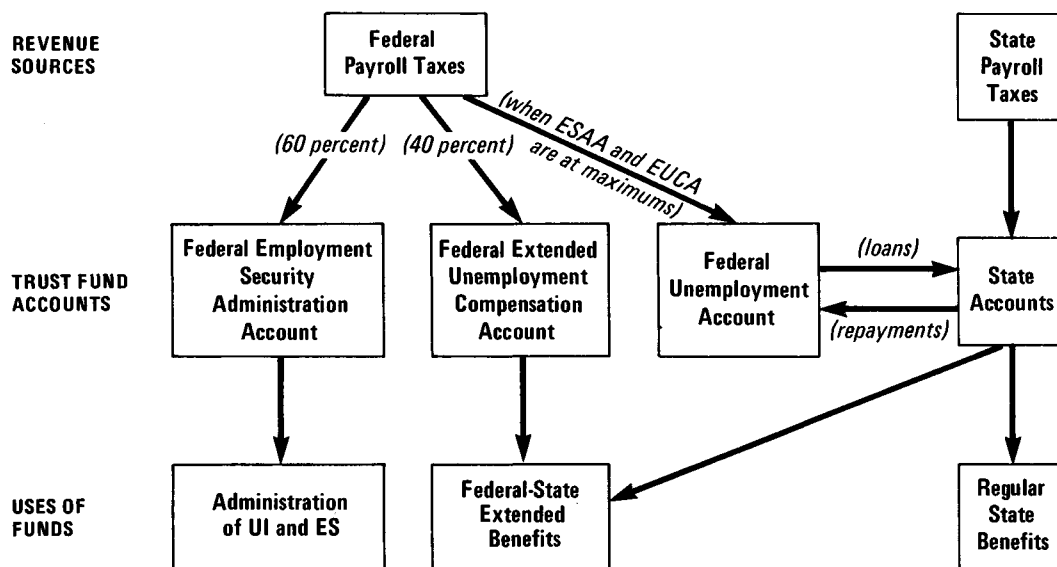
Federal UI Tax. In addition to state UI taxes, firms are also liable for federal UI tax contributions. The gross federal UI tax under the Federal Unemployment Tax Act (FUTA) of 1939 is 3.5 percent of the first \$7,000 in covered wages per employee, but this tax rate is reduced by up to 2.7 percentage points in states whose UI laws conform to federal rules. In states receiving the full 2.7 percentage-point tax reduction, therefore, the net federal tax is 0.8 percent of the first \$7,000 in covered wages, or \$56 annually for each employee with at least that amount of wages. States may not receive this full tax reduction if they have delinquent UI loans, however. The federal tax is levied on employers who, in the then current or prior year, either employed at least one person for 20 weeks or had a quarterly payroll of at least \$1,500.

Organization of the Unemployment Trust Fund

The financial structure of the Unemployment Insurance system is reflected in the flows of tax revenues, benefit payments, and administrative outlays through accounts in the Unemployment Trust Fund (UTF). This fund consists of 53 state accounts and separate federal accounts for specific purposes. Funds flow into these accounts from state and federal payroll taxes, loans from other accounts, and loans and transfers from the federal general fund. Expenditures are in the form of benefit payments, administrative costs, and the provision of loans to other accounts. These flows are described below and are shown in Figure 1.

State Accounts. Each state has a separate account in the UTF. The primary source of funds for these accounts is state UI payroll tax revenue; when this revenue is insufficient to cover outlays, the state borrows from the Federal Unemployment Account in the UTF. Outlays from state

Figure 1.
Unemployment Insurance Account Structure and Flow of Funds



SOURCE: Congressional Budget Office.

NOTE: Does not include loans to federal UI accounts from the general fund, nor transfers among accounts when they reach statutory funding limits.

accounts are limited primarily to the payment of regular and extended benefits to unemployed workers.

The Extended Unemployment Compensation Account (EUCA). The Extended Unemployment Compensation Account finances the federal share of Extended Benefits paid to workers in states with high unemployment. ^{11/} Revenues deposited in EUCA are 40 percent of those generated by the federal UI payroll tax on employers. If this account has more than its

11. During 1972-1973 and 1975-1977, funds from this account were also used to finance federal supplemental benefits for the long-term unemployed. The current federal supplemental program is financed from federal general revenues, however.

TABLE 2. STATE UNEMPLOYMENT INSURANCE PAYROLL TAX INDICATORS, JANUARY 1983 (In dollars and percentages)

State	Tax Base	Tax Rate on Taxable Earnings		Estimated Average Tax Rate <u>a/</u> on	
		Min.	Max.	Taxable Earnings	Total Earnings
Alabama	7,000	0.5	4.0	1.9	0.9
Alaska	20,200	1.0	6.5	3.0	2.0
Arizona	7,000	0.1	2.9	1.2	0.4
Arkansas	7,000	0	6.0	2.5	1.4
California	7,000	0.7	4.7	2.8	1.0
Colorado	7,000	0	4.5	1.2	0.6
Connecticut	7,000	0.1	6.0	2.3	0.8
Delaware	7,200	0.1	7.0	3.4	1.0
District of Columbia	8,000	0.8	4.5	3.0	1.2
Florida	7,000	0.1	4.5	1.0	0.4
Georgia	7,000	0.01	5.7	1.4	0.5
Hawaii	13,800	0	4.5	1.7	1.2
Idaho	14,400	0.2	4.4	2.1	1.4
Illinois	7,000	0.2	5.3	3.8	1.4
Indiana	7,000	0.02	4.5	2.8	1.1
Iowa	9,400	0	6.0	2.4	1.2
Kansas	7,000	0.025	3.8	2.5	1.1
Kentucky	8,000	0.3	10.0	3.4	1.9
Louisiana	7,000	0.1	4.5	2.1	1.0
Maine	7,000	0.5	5.0	3.1	1.3
Maryland	7,000	0.1	6.0	2.5	0.8
Massachusetts	7,000	0.4	6.0	3.3	1.4
Michigan	8,000	0.3	6.9	4.1	1.3
Minnesota	9,000	0.1	7.5	2.4	1.1

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Mississippi	7,000	0.1	4.0	2.9	1.4
Missouri	7,000	0	4.4	2.7	0.9
Montana	8,200	0.2	4.4	2.7	1.4
Nebraska	7,000	0	3.7	1.8	0.7
Nevada	10,200	0.3	4.7	1.7	1.0
New Hampshire	7,000	0.01	6.5	1.4	0.6
New Jersey	8,800	0.4	6.2	3.4	1.6
New Mexico	9,300	0.1	5.1	1.7	0.9
New York	7,000	0.3	5.2	3.1	1.1
North Carolina	7,000	0.1	5.7	1.6	0.7
North Dakota	10,150	0.3	6.0	2.7	1.5
Ohio	7,000	0	4.3	2.9	1.1
Oklahoma	7,000	0.1	5.2	0.8	0.4
Oregon	12,000	0.9	4.0	2.9	1.7
Pennsylvania	7,000	0.3	4.9	4.1	1.6
Puerto Rico	All	3.0	3.0	3.0	3.0
Rhode Island	9,200	1.0	6.0	4.1	2.3
South Carolina	7,000	0.25	4.1	1.9	0.9
South Dakota	7,000	0	9.0	1.6	0.8
Tennessee	7,000	0.15	7.0	2.8	1.0
Texas	7,000	0.1	8.5	0.6	0.3
Utah	14,800	0.5	3.0	1.7	1.1
Vermont	7,000	0.2	5.5	3.2	1.5
Virgin Islands	8,000	b/	b/	3.1	1.6
Virginia	7,000	0.01	6.2	1.8	0.8
Washington	11,400	0	3.0	3.0	1.7
West Virginia	8,000	0	7.5	4.8	2.1
Wisconsin	7,000	0	5.0	2.7	1.1
Wyoming	7,000	0	2.7	2.5	1.5

SOURCE: U.S. Department of Labor, Unemployment Insurance Service, Comparison of State Unemployment Insurance Laws (January 1983) and unpublished data.

- a. Calendar year 1982.
- b. Tax rate is adjusted frequently.

statutory limit in funds at the end of a fiscal year, the remainder is transferred to other accounts in the UTF. 12/

The Employment Security Administration Account (ESAA). The Employment Security Administration Account is used to finance the federal and state costs of administering Unemployment Insurance and the Employment Service. Revenues for the ESAA account consist of the 60 percent of FUTA revenues not assigned to the EUCA account. Balances in excess of the legal maximum amount are transferred to other trust fund accounts.

The Federal Unemployment Account (FUA). The Federal Unemployment Account provides loans to states for the payment of benefits. Revenues from the federal tax flow to this account when both the ESAA and EUCA accounts have reserves at their statutory limits. Funds in excess of the legal maximum in FUA are distributed to state accounts, although this most recently occurred in the late 1950s.

Under federal law, state loans from this account received after March 31, 1982, are assessed interest if they are not repaid within the fiscal year in which they originated. 13/ The rate of interest is the average rate paid by the federal government on all outstanding federal obligations, but not more than 10 percent. The current rate is 10 percent. States are not allowed to borrow from the FUA to make interest payments on loans, but they may defer most of their interest payments if their state insured unemployment rate exceeds 7.5 percent or if their state total unemployment rate exceeds 13.5 percent.

States have from two to three years to repay the principal of their loans, after which time special federal remedies go into effect. 14/

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12. Each federal account in the Trust Fund has a statutory funding limit. At the end of a fiscal year, funds in the Extended Unemployment Compensation Account and the Federal Unemployment Account should not exceed \$750 million or 0.125 percent of total covered wages in the preceding calendar year. Funds in the Employment Security Administration Account should not exceed 40 percent of the appropriation to that account in the preceeding fiscal year. See Congressional Research Service, Unemployment Insurance: Financial Trouble in the Trust Fund, Issue Brief IB79098 (September 7, 1982).
 13. See Appendix A.
 14. Loans are to be repaid by November 10 of the second year in which January 1 passes with the state still having the outstanding advance. Thus, a state has from 22 to 34 months to repay its loan.

Employers in a delinquent state pay an additional federal tax of at least 0.3 percent of taxable payroll per year for each year the state is in arrears. For example, the first year the loan is delinquent, the net federal tax is increased from 0.8 percent to 1.1 percent; in the second year, the net tax rate rises to at least 1.4 percent; and so on until the loan is repaid. In past periods of high unemployment, the federal government has limited the conditions under which net federal tax increases are imposed, however. Because the federal UI tax is not experience rated, delinquent state borrowings are repaid by employers roughly in proportion to the size of their work force, and not according to their prior use of the UI program.

